

Introduction

The Division of Buildings and Grounds is the primary recipient of utility bills for all city departments. This area processes payments for telephone, electric, and natural gas billings. Water/sewer bills are now charged to various departments in an automated process that has eliminated the need for manual preparation of spreadsheets and manually keying charges. Public Works, Administration, receives and processes bills for traffic lights and street lights. In addition, individual bills for electrical usage are sent directly to the Wastewater Treatment Plant, Fleet Services, and Regional Radio for payment and monitoring.

Review Objectives

The purpose of the review was to examine processes for payment and monitoring of utility bills and to determine whether:

- Utility bills include only those properties owned or leased by the city for which we are obligated to pay utility costs.
- Utility bills are accurate, reasonable and charged to the appropriate code.
- The process for allocating utility bills to various city departments is effective and efficient.
- There is predictable stability in utility rates currently in effect.

Scope of Work

We obtained information on property owned and occupied by the city as well as properties that are leased by or to the city. We compared the property information to listings of utility meters being billed to ensure that we are not paying for service at facilities no longer owned or occupied by the city. We compared lease provisions for utilities to practices in place requiring reimbursement from tenants or their absorption of utility expenses.

We reviewed copies of bills for electricity and natural gas for a period of two months and traced the billed amount to charges posted to the general ledger. We also traced billing amounts to two databases maintained by Buildings and Grounds and Public Works, Administration. We reviewed significant variations in billed charges from month to month for a period of two years. We met with various members of city staff to discuss the payment and monitoring process for utility bills.

We also met with staff from the Utility Billing area where water/sewer charges are prepared for various city departments and documented the process.

This review did not include any work related to payment and monitoring of telephone and cell phone charges since an in-depth review of that area was done several years ago.

This review was not conducted as an audit and did not include tests of records and other audit procedures as required by professional auditing standards.

Observations and Suggestions

I. Observations: Processing and Monitoring Utility Bills

The City of Lynchburg receives more than three hundred bills for electricity and natural gas each month. These are processed in several different areas. Buildings and Grounds processes more than two hundred electric bills and approximately thirty bills for natural gas consumption each month. These bills are processed individually as they are received which results in a large volume of payment requests that are prepared and forwarded to the Finance Department for payment. Each bill and payment request is copied and distributed to the responsible area.

In 1996 when electric rates were renegotiated, a system was developed that provided for American Electric to send four combined bills each month for areas processed by Buildings and Grounds. These bills allowed a period of approximately ten days before payment was due and the city was unable to process payments with the short turnaround time. American Electric was not willing to relax their requirements for timing of the payment and the consolidation plan was abandoned to avoid incurring substantial late fees.

Approximately one hundred and forty electric bills for street lighting and traffic lights are received by Public Works, Administration, each month. Each week, one payment request is prepared that includes all bills received during that week.

One large electric bill is sent directly to the Wastewater Treatment Plant for their monthly consumption. Per conversation with an accountant at Utilities, the Wastewater Treatment Plant needs to receive and process this bill because they are charged a different rate from other city departments. Fleet Services has also received their electric bill directly since they moved into the new facility. Fleet personnel do not need to receive the bill directly as long as the information on usage and amounts is available to them. Emergency Communications receives bills directly for the Regional Radio operation.

Both the Buildings and Grounds and the Administration areas of Public Works maintain databases/spreadsheets of utility expenses paid. Information in both areas is entered manually. Database information is used to monitor utility costs. Each quarter, Buildings and Grounds prepares a report of water/sewer, electricity, and natural gas usage. Another employee in that area uses the report to manually enter the same information into the Work Management System. This information is also used to monitor and benchmark data captured for each building tracked in the Work Management System.

II. Observation: Databases are Maintained Only for Specific Areas

The two databases maintained by the Public Works Department include billing information only for the areas that are charged to their budget. Utility bills that are charged to other areas such as Human Services and the Fire Department are monitored in their individual areas.

III. Observation: Database Entries are Manual, Data is not Well-Organized

The database that is maintained by Buildings and Grounds was created several years ago by a consultant and is less useful than it might be due to the following circumstances:

- The use of various fields is not consistent; therefore, the data cannot be effectively grouped and analyzed. For example, the first column of data contains varied information that includes actual street addresses, general locations such as the airport, specific names of buildings, and descriptions of uses such as “historic sign” and “Christmas Lights.”
- All data must be manually entered. Although there were few errors noted in the data entered during our review, the process is time-consuming and has a greater potential for errors and omissions than transfer of electronic data.
- The current arrangement of monthly consumption and cost amounts does not lend itself well to comparison of month-to-month and year-to-year data.

Suggestion:

Buildings and Grounds personnel have been in contact with AEP to pursue the availability of electronic billing. We suggest that the City continue to pursue the possibility of receiving a combined electronic bill, or several bills, per month from American Electric that are processed for payment in one central location. These bills should be in the form of an electronic file that could be loaded into a database accessible to all areas of the city for purposes of benchmarking and monitoring expenses. This would eliminate the need to manually enter massive amounts of data on a regular basis as well as copying and distributing copies of bills and payment requests. The number of individual payment requests keyed each month in Accounts Payable would be dramatically reduced. The Finance Department should be contacted during negotiations for electronic billing to ensure that payment processing practices do not prohibit timely payment of bills.

Public Services should also consider whether it might be advantageous to redesign the database currently in use to allow for better grouping and analysis of the data it contains.

Management’s Response:

Management agrees with the observations and suggestion and will continue to work with AEP to automate the billing process. They feel that electronic billing must be in place before the function can be centralized due to the already heavy workload processed in this area. A redesign of the database will be dependent on the format of the electronic

billing. There is also some concern that with electronic billing, the City's current schedule for processing payments will not meet the 10-day turnaround and could result in assessed late fees.

IV. Observation: Establishing New Utility Accounts

There is currently no process in place to ensure that Public Services is advised when new utility service is implemented. When a bill for a new facility is received, an employee must research the bill and determine who should be charged and whether or not the charge is for a city property. In other situations, such as the new Human Services facility which is now being renovated, bills may be sent to other departments where employees are not aware of the circumstances and could potentially process payment requests for bills the city is not obligated to pay. For example, agreements in place for the Human Services renovation require the contractor to pay for electricity while construction is underway. These bills were initially sent to Human Services.

There is a similar problem with departments who use city water and sewer utilities. Some connections are typically not used for periods of time during the year, such as park facilities during the winter months. The city's billing system will generate a monthly minimum charge even if no water is consumed unless notification is sent to Utility Billing. When notification is received, these accounts can be deactivated and no minimum monthly charge will be assessed.

Suggestion:

We suggest that a formal process be put into place for the initiation or discontinuance of utility services to ensure that responsible parties are informed in advance of action being taken.

Management Response:

Management agrees. They will research possible alternatives to ensure that they are informed prior to actual changes or additions of utility services.

V. Observation: Lease Provisions Requiring Reimbursement for Utility Bills not Properly Handled

The lease agreement executed between the Chamber of Commerce and the City of Lynchburg for the Visitors' Center on Church Street calls for the city to pay utility bills and be reimbursed by the Chamber of Commerce. Our review indicated that the Chamber was not being billed and further research into the situation showed that they had never been billed. The lease was dated January 1, 1998.

Another agreement with Conner Produce provides that the company will reimburse the city for utilities which are in the city's name. Our review showed that the company had not been billed for utilities charged to a capital project that exceeded five thousand dollars although copies of the bill had routinely been sent to Public Works, Engineering.

The project was overspent. A billing was subsequently prepared and submitted for payment.

A lease agreement with the Business Development Center also provides for the city to pay utilities and receive reimbursement from the Center. No billings for reimbursement were located and a discussion with the Director of the Business Development Center revealed that their utilities are billed to them directly.

We also noted that actual reimbursements of city utility costs are not treated uniformly in the city's accounting records. Some payments are recorded as revenue while others are posted as expenditure refunds.

Suggestion:

We suggest that sufficient resources be applied to the maintenance of leased property records to ensure that lease provisions are consistently followed and lease agreements are updated as necessary to conform to existing circumstances.

Reimbursements received from other entities should be handled uniformly in the city's accounting records.

Other Comments:

Our research into leasing arrangements relative to utility billing showed that there is currently no central repository for information and documents on leasing arrangements. A substantial amount of time was absorbed in attempting to accumulate this information. Also, many existing lease arrangements are outdated and have not been revised for many years. A memo concerning these issues has been forwarded to the City Manager.

The Work Management System used by Public Services contains a great deal of valuable information that is considered necessary for various departmental functions. However, it is extremely outdated and requires a substantial amount of maintenance as well as manual input of data. The city should consider replacing this system as soon as is practicable. Electronic interchange of information from other systems, such as electronic billing files, should be incorporated into the implementation of the new system.

Our review period included two years beginning in July, 2000 and ending June 2002. However, during the course of the review, we observed that there was a dramatic rate increase for electric bills received in September of 2002. The increase may result in some budgets being overspent during the current fiscal year. Another impact of the change in rate structure is the inability to recalculate charges for electricity. Prior to the change in rates, Public Service employees were able to test the accuracy of charges but this is no longer possible.

We appreciate the assistance we received from staff within Public Works Divisions of Buildings and Grounds, Engineering and Administration. We also want to thank the employees within Utilities Billing and the Department of Risk Management for their assistance. We are available to discuss this report and address any questions or concerns which may arise.

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